

TANGIBLE CAPITAL ASSET POLICY
Council Policy No. 126/11

PURPOSE:

This policy will provide guidance to staff for the accounting of tangible capital assets. The principal issues in accounting for tangible assets are the recognition of the assets, the determination of their carrying amounts, determination of amortization charges, accurately recording disposals and the recognition of any related impairment losses. In addition this document covers policies and procedures to protect and control the use of all tangible capital assets, provide accountability over tangible capital assets and gather and maintain information needed to prepare financial statements.

SCOPE:

This policy applies to all City departments, boards, agencies and other organizations falling within the reporting entity of the City.

DEFINITIONS:

“Tangible Capital Asset”	A non-financial asset having physical substance that: <ul style="list-style-type: none">✓ Is used on a continuing basis in the City’s operations;✓ Has a useful life that extends beyond one year; and✓ Is not held for resale in the ordinary course of operations.
“Betterment”	Subsequent expenditures on a tangible capital asset that: <ul style="list-style-type: none">✓ Increases previously assessed output or service capacity;✓ Lowers associated operating costs;✓ Extends the useful life of the asset; or✓ Improve the quality of the output.
“Cost”	The gross amount of consideration given to acquire, construct, develop or better a tangible capital asset and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset.
“Fair Value”	The amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.
“Capital Lease”	A non-financial asset that has physical substance and a useful life extending beyond an accounting period and is held under lease by the City for use, on an ongoing basis, in the production or supply of goods and services. Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the municipality without necessarily transferring legal ownership.

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DEFINITIONS: (continued)

“Net Book Value”	The cost of a tangible capital asset less accumulated amortization and the amount of any write-downs.
“Useful Life”	The estimated period over which a capital asset is expected to be used by the City. A tangible capital asset’s useful life may be shorter than the actual life of the asset due to limitations on the physical, technological, commercial or legal life of the asset.
“Amortization”	The accounting process of allocating the cost less residual value of a tangible capital asset to operating periods as an expense over its useful life in a rational and systematic manner appropriate to its nature and use.
“Residual Value”	The estimated net realizable value of a tangible capital asset at the end of its useful life to the City.
“Write-down”	A reduction in the cost of a tangible capital asset to reflect the decline in the asset’s value due to a permanent impairment.

POLICY STATEMENTS:

A) Valuation

Tangible capital assets should be recorded at cost plus all charges directly attributable to place the asset in its intended location and condition for use.

The cost of purchased assets is comprised of the consideration paid to acquire the item including all non-refundable taxes, duties, freight and preparation costs net of any discounts or rebates. For land, the cost will include expenses such as legal fees, land registration and transfer taxes as well as any costs that make the land suitable for its intended use, such as demolition costs or site improvements (including reclamation) that become part of the land.

The cost of constructed or developed assets will include all costs directly attributable to the asset constructed or developed including, but not limited to, construction costs, professional fees and architectural costs.

Donated or contributed assets will be recorded at the fair value at the date of it was received. Fair value may be determined using market or appraisal values.

The initial capitalization of existing assets will be valued at cost plus all charges directly attributable to place the asset in its intended location and condition for use. If the actual proof of the value is nonexistent then the asset will be valued at discounted replacement cost.

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POLICY STATEMENTS:

A) Valuation (continued)

Due to the age and nature of land under roads and sidewalks, all City land that is under roads and sidewalks are considered to have a nominal value of \$1.00.

B) Capitalization

Thresholds are established for a minimum dollar value and number of years of useful life. Tangible Capital Assets should be capitalized according to the following thresholds:

ASSET CATEGORY	THRESHOLD
Land	Capitalize All
Land Improvements	\$12,500
Buildings – new construction	\$25,000
Building Improvements	\$12,500
Vehicles, Machinery and Equipment	\$5,000
IT Equipment	\$5,000
Pooled Purchases	\$25,000
Infrastructure (Roads, Water, Sewer)	\$25,000

At the discretion of the Director of Finance, the City will account for equipment, furniture, and IT infrastructure assets as pooled assets when the individual asset value is less than \$5,000.00, and when acquired in the same year as other like assets where the total value of the like assets exceeds \$25,000.00. Pooled assets will be amortized over a useful life reflective of the assets in the pool. At the discretion of the Director of Finance, dispositions will be accounted for based on the average cost of the pooled assets and the number of units disposed of, or they will not be accounted for with the entire pool being deemed to be disposed of at the end of the pool's useful life.

C) Categories

A category of assets is a grouping of assets of a similar nature or function in the City's operations. The following categories shall be used:

1. Land
All land owned by the City is segmented by each parcel held.
2. Buildings
Buildings are segmented by the individual building.

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POLICY STATEMENTS:

C) Categories (continued)

3. Vehicles, Machinery and Equipment include the following:
 Machinery and equipment which is segmented on a per unit basis.
 Light vehicles which are segmented on a per unit basis.
 Furniture & fixtures which are pooled, segmented at the per unit level.
 IT infrastructure includes software, hardware, infrastructure and photocopiers. Segmentation is on a per unit basis.
4. Road Infrastructure
 Road assets are segmented by roads, lanes, sidewalks, and structures.
5. Water Infrastructure
 Water system components are segmented by water mains, pump stations, valves, hydrants and services.
6. Sewer Infrastructure
 Sewer system components are segmented by sewer mains, pump stations, manholes, catch basins and services.

D) Amortization

The cost, less any residual value, should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use. The City shall use the following amortization methods:

ASSET CATEGORY	AMORTIZATION METHOD	EXAMPLES
Land	Not Amortized	Vacant, Occupied for Municipal purposes, Parks, Fencing
Buildings (incl. land improvements)	Straight Line	All City owned (Fire Hall, Town Hall, Rec Centre)
Vehicles, Machinery & Equipment	Straight Line	Boilers, Lifts, Pumps, Signage, Graders, Fire Trucks, Dump Trucks, Loaders
- Machinery & Equipment	Straight Line	Pickup Trucks, Cars, Vans
- Light Vehicles	Straight Line	Desks, Chairs, Cabinets
- Furniture & Fixtures	Straight Line	Hardware, Software, Cabling, Printers, Photocopiers
- IT Infrastructure	Straight Line	
Road Infrastructure	Straight Line	Roads, Sidewalks, Parking Lots
Water Infrastructure	Straight Line	Pump Stations, Pipes, Mains, Services, Hydrants
Sewer Infrastructure	Straight Line	Mains, Piping, Treatment Plant

A general guideline for determining the estimated useful life of an asset is attached as Appendix 'A'

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POLICY STATEMENTS: (continued)

E) Write Downs and Disposals

When tangible capital assets are disposed of, scraped, dismantled or replaced due to obsolescence, the department head or designate must notify the Director of Finance, or designate, of the asset description and effective date of disposal. The Finance department is responsible for adjusting the asset registers and accounting records recording a gain or loss on disposal.

Disposals of tangible capital assets must comply with the City's policies and procedures.

A write down of a tangible capital asset would occur when the net book value exceeds the fair value of the asset. A write down is caused by a permanent impairment of the assets value.

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SCHEDULE A – ASSET USEFUL LIFE (GENERAL GUIDELINES)	
<u>ASSET TYPE</u>	<u>DEPRECIABLE LIFE IN YEARS</u>
LAND	Not Depreciated
LAND IMPROVEMENTS	80
BUILDING STRUCTURE	50
MACHINERY & EQUIPMENT	
Furniture	10
Light Vehicles	15
Heavy Vehicles	20
Tractors/Backhoes/Loaders/Forklifts	15
Streetsweepers/Ice Machines (i.e. Olympia, Zamboni etc.)	15
Graders	10
Mowing Equipment	10
Miscellaneous Equipment	10
Snowblowers	10
Trailers	20
Sewer Equipment	10
Playground Equipment	15
Fire Department Light Vehicles	10
Fire Trucks	20
Fire Department Rescue Vehicle	15
Fire Department Trailers	20
Phone System & Equipment	20
IT Infrastructure Hardware	5
IT Infrastructure Software	10
WATER INFRASTRUCTURE	
Water Main Pipe Material	
PVC	80
Other	60
SANITARY SEWER INFRASTRUCTURE	
Sanitary Sewer Pipe Material	
PVC	80
HOPE	90
Other	50

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SCHEDULE A – ASSET USEFUL LIFE (GENERAL GUIDELINES)	
<u>ASSET TYPE</u>	<u>DEPRECIABLE LIFE IN YEARS</u>
SANITARY FORCE MAIN INFRASTRUCTURE	
Sanitary Force Main Pipe Material	
PVC	40
HOPE	40
STORM SEWER INFRASTRUCTURE	
Storm Sewer Pipe Material	
O	70
AC/ASP-CSP/CONC/Epoxy CSP	50
PVC/Blue Seal/Boss 2000/Hope/SOL-FLO/ULTRA-FLO ULTRA-RIB	80
CSP	30
WOOD	60
ROAD INFRASTRUCTURE	
Road Components	
Asphalt – Local/Collector Roads	40
Asphalt – Arterial Road	30
Base – Local /Collector Roads	80
Base – Arterial Road	60
Lane – Gravel/Paved	60
Sidewalks, Curb & Gutter	50
Trail – Paved	30
Trail – Gravel	40
Streetlights/Traffic Lights	35